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**THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

Ms. Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: CC Docket Nos. 96-45 and 97-160, and DA 98-715

**REPLY COMMENTS OF THE
MASSACHUSETTS DEPARTMENT OF
TELECOMMUNICATIONS AND ENERGY**

I. Introduction

These reply comments are submitted in response to the Federal Communications Commission's ("FCC" or "Commission") April 15, 1998 request for comments on proposals to revise the methodology for determining universal service support. A number of parties have submitted proposals and/or have provided the Commission with comments. In these reply comments, the Massachusetts Department of Telecommunications and Energy ("Massachusetts Commission") does not advocate adoption or rejection of any of the specific proposals which have been made, but instead offers its opinion on the principles and standards that the Commission should use in evaluating these proposals and comments.

The following principles should guide the Commission's review:

1. Universal service policy should be designed to maintain or increase subscribership—not to transfer wealth from low-cost to high-cost regions.
2. Federal universal service programs should be funded solely out of assessments on federal (i.e., interstate) revenues/services.
3. Universal service support should be limited to what is needed to achieve reasonable policy objectives pursuant to the Telecommunications Act of 1996.

Massachusetts Commission Reply Comments

Page 2

II. Discussion**1. Principle 1: Universal service policy should be designed to maintain or increase subscribership—not to transfer wealth from low-cost to high-cost regions.**

The Commission has noted that, "Universal service support mechanisms that are designed to increase subscribership by keeping rates affordable will benefit everyone in the country, including those who can afford basic telephone service."¹ Some interested parties appear to take the Act's mandate that rates be "reasonably comparable" in both rural and urban areas as an invitation to extend the mandate of universal service from ensuring that all citizens have access to affordable telecommunications service to ironing out all (or a substantial portion of) cost differences between states and between urban and rural areas. We submit that the Commission should reject any attempts to change universal service from a valuable social policy objective into a tool for wealth transfer from low-cost to high-cost states. In order to preserve the traditional function of universal service policy, support policies should take into account *need* as well as *cost*. Otherwise, universal service support could result in low-income urban and suburban customers subsidizing high-income rural customers. The principal goal of high-cost policies should be to provide support to needy customers in high-cost areas. The Act's mandate to ensure that rates are "reasonably comparable" in rural and urban areas should be viewed through the prism of universal service goals, in that rates should be *reasonably comparable in terms of affordability* (which, by definition, encompasses need as part of the analysis), not in terms of absolute rate levels.

2. Principle 2: Federal universal service programs should be funded solely out of assessments on federal (i.e., interstate) revenues/services.

The Commission should reject attempts to extend assessments for interstate universal service support to intrastate revenues. States may be responsible for replacing intrastate implicit universal service support with explicit support based on intrastate revenues, which means that intrastate revenues would be assessed twice if the Commission attempts to extend federal assessments to state revenues. Such a move also would likely result in further litigation to define jurisdictional boundaries, to the detriment of all concerned.

This principle also suggests that the Commission should consider carefully whether it should modify its determination that the federal high-cost support will be limited to 25% of the required amount, which is roughly equal to the federal portion of separated local exchange costs. Clearly defined jurisdictional boundaries should be respected by the

¹ FCC 97-157, Report and Order, In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Released: May 8, 1997, ¶ 8.

Massachusetts Commission Reply Comments

Page 3

states as well as the federal government. States have to date succeeded in defending their role as the primary regulators of local telephone services, but it undermines this role to argue that the Commission should provide support for local service beyond the Federal jurisdictional share.

3. Principle 3: Universal service support should be limited to what is needed to achieve reasonable policy objectives pursuant to the Telecommunications Act of 1996.

Proposals to increase the size of existing high-cost support should be evaluated in terms of whether it is truly necessary to increase existing support in order to achieve universal service objectives. In its February 1998 "Trends in Telephone Service" Report, the Commission noted that United States telephone penetration is at 93.9 percent, up from 91.6 percent in 1984, which suggests that additional support is not needed to solve a problem that largely does not exist. In particular, the Commission should evaluate the flow of money from state-to-state in terms of each state's subscribership level in order to prevent the kind of purposeless wealth transfers described above.

Another issue for the Commission to consider is the effect that increased high-cost support will have on universal service, given that there is evidence that subscribership is significantly affected by the level of long-distance charges.² Increased federal support assessed on interstate revenues (largely interstate toll services) could increase the cost of toll services, which may have an unintended negative impact on universal service.

III. Conclusion

We urge the Commission to consider these principles as it evaluates the proposals and comments received from other parties. We share the Commission's commitment to the preservation and advancement of universal service, but we do not want to see the legitimate goals of universal service policy expanded to include support that (1) is not needed to achieve those goals and (2) could potentially undermine them.

² "Recent studies indicate that disconnection for non-payment of toll charges, and the high deposits carriers charge to cover the cost of noncollectible charges, may be more significant barriers to universal service than the cost of local service itself." FCC 96-93, Notice of Proposed Rulemaking and Order Establishing Joint Board, In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Released: March 8, 1996, ¶ 56.

Massachusetts Commission Reply Comments

Page 4

Respectfully submitted,

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